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### MEDIA ALERT

#### **Utah Division of Securities identifies Top Ten Investment Scams for 2007**

***"Top Ten List reviews trends in 2006 securities fraud, offers 2007 predictions"***

**(For immediate release...)**

**SALT LAKE CITY, Utah** – Francine A. Giani, Executive Director for the Utah Department of Commerce announced today that the Division of Securities has released a top ten list of investment scams for 2007. The list details fraudulent activity tracked by the Division of Securities over the past year and offers predictions on which investment schemes to watch for in 2007.

"Securities scams continue to target Utah investors," said Francine A. Giani, "We hope citizens will memorize this list because an educated investor is the best defense against fraud."

"Close to 50% of all enforcement actions brought by the Division of Securities in 2006 involved a person with a prior criminal background or state sanction," said Wayne Klein, Director of the Division of Securities, "We urge investors to check out the promoter's background and investment offers with our Division before handing over your money."

#### **Utah Division of Securities Top Ten Investment scam predictions for 2007**

1. **Real Estate Investments.** Real estate values have escalated dramatically around the country and in Utah. This has lured crooks into the real estate investment industry and has made investors think they can make dramatic profits through real estate investing. These scams take several forms: using your credit (or credit score) to allow promoters to buy homes and resell them, borrowing money to buy and sell (flip) real estate, buying homes at inflated prices in the names of investors with the expectation that there will be money left over to invest, investments in "hard money" lending that will be used to finance high-interest home loans (promising investors 2-4% interest per month), and claiming that real estate collateral means the investment has no risk. Investors should be especially wary of any promoter who suggests that the investor borrow money from home equity to make an investment. During 2006, the Division brought actions against ten different types of real estate investment schemes for fraudulent practices or other violations of the law.
2. **Note Brokering.** The Division is receiving many calls from citizens who purchased training courses teaching them how to become loan brokers, only to discover that they must be licensed as securities brokers to sell notes. Several companies advertise on the

Internet and through television infomercials that they will teach investors how to purchase real estate notes at a discount, list them on a web site sponsored by the company, and resell them at a profit. The companies take large fees from investors, claiming the investors can start their own "successful in-home note businesses" and make thousands in profits. The buying and selling of notes for investment requires a securities license and full disclosure to customers.

3. **"Free Meal" Seminars for Seniors.** Many seniors receive invitations to a seminar at which investment advice will be offered along with a promise of a free meal. At the seminar, seniors are told they can increase their investment income, avoid taxes, and earn safe and guaranteed returns. At the conclusion of the seminar, each senior is asked to make an appointment for a personal visit at which the senior's investment goals can be analyzed. Frequently, these individual meetings are used to learn about all of the senior's assets and to recommend that they sell their current investments and purchase variable annuities or equity-indexed annuities. These annuities can be appropriate for some investors, but they can be complex and carry extremely high fees and long holding periods. Many of those targeting seniors with free-meal pitches claim to be certified experts, when often the certifications mean nothing more than the person has been trained on what sales pitches are most effective with seniors. During fiscal year 2004-2005, state securities regulators across the country found that over 25% of all enforcement actions involved the financial exploitation of seniors and more than 30% involved the sale of variable or equity-indexed annuities. These statistics were supplied by the North American Securities Administrators Association (NASAA).
4. **Prime Banks.** Prime bank schemes involve claims that money can be deposited with European banks or financial institutions in the U.S. and used to facilitate financial transactions around the world. Generally, investors are told they will receive high-yield, tax free returns through trading by international elite, or "prime" banks. In one case brought by the Division, promoters claimed investors could receive up to 160% profit *per week*, that no one had lost money in the investment, and that more than 20 people already had invested \$17 million in the program. Investors are told there is no risk because their money will never leave their control in bank accounts. One of the promoters claimed to be able to offer this program because he had been appointed a "mediator" by the International Monetary Fund (IMF). These claims are all false; there is no such thing as prime banks which use money from investors to facilitate transactions. The supposed IMF mediator had previously been ordered by Missouri securities enforcers to cease selling these investments.
5. **"Hot Tip" Stock Recommendations via E-mail.** Move over Nigerian scams, the most prevalent unsolicited e-mails now offer stock tips. Some e-mails pretend to contain inside information directed to another person. Most e-mails use language proclaiming the urgency of buying a particular stock: "Get [the stock] First Thing Tomorrow," "This is Going to Explode!" "Check out for HOT NEWS!!!," or "The alert is ON!" The e-mails will generally list a current price for the stock of less than \$1, saying there is a target price of \$3 or \$5 per share. An anti-spam company said that 13% of all e-mails sent were touting penny stocks. One recent study found that investors who act on email invitations lose an average of 5.25% of their money in the first two days. Another study found that over a longer term, investors who purchase these stocks lose a third of their investments.
6. **Church Frauds/Affinity Frauds.** One of the most effective ways to defraud others is to belong to their church or have some other shared association. This might be serving on the PTA, coaching kids' sports, or being co-workers. People naturally trust those with whom they associate and ask fewer questions. Crooks know this and will use those feelings of trust when soliciting money. The most common affinity fraud is religion.

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Enforcers of state securities laws have found that 80,000 people were victimized between 1998 and 2001, losing nearly \$2 billion in church frauds. Arizona has been fighting many frauds with religious origins, some with Utah connections. Last summer, Arizona convicted two officers of the Baptist Foundation of America for their role in a scheme that took \$590 million from 11,000 investors. Arizona filed suit against Mathon Management for a \$167 million fraud involving hundreds of investors, including some in Utah. That state also took action against a group called "Believing in Jesus Investments, LLC," which was sold in presentations at church groups. Believers purchase memberships in one of four programs, including "Christian Millionaires in Training." In Utah, we see many frauds promoted through churches, but also among parents watching their children play sports, among co-workers, and even a fraud targeted at families of prison inmates.

7. **Foreign Currency Trading.** Beware of promoters claiming to have special expertise in buying and selling international currencies. The Division has seen an increase in people claiming to be making huge profit trading currencies. Foreign exchange trading (forex) is notoriously risky and dominated by large banks and professional traders. A local promoter might be able to create the impression of success by having an office with multiple computer screens tracking financial markets or by creating fictitious account statements showing huge returns, but disappointment awaits. In three cases prosecuted by the Division against forex promoters in 2006, the promoters always claimed special expertise, but in every case some or all of the investor money was used to pay the promoter's personal expenses. In all three cases the promoters were not licensed to sell securities or commodities.
8. **Oil and Gas Investments.** As expected, the high price of gasoline is leading to a spurt of investment frauds relating to claims the investor can own part of an oil well. In August 2006, a Washington County man agreed to cease and desist selling securities after being accused of promising an investor his deposit would be backed by an existing oil and gas lease in Texas. Criminal and administrative charges are pending against a Cache County man who allegedly took money from investors claiming the money would be used for oil wells. The Division expects fraud to increase, including claims of new technology for extracting oil from tar sands or oil shale. As oil exploration intensifies in the Uintah Basin using new technologies, investors should expect to be pitched to invest in new inventions or claims of new oil discoveries. Investors should consult with experts before making any investments in this highly-technical area and make sure the securities are registered.
9. **Deceptive Internet Investing.** Many Internet web sites offer investment programs. Few are managed by licensed securities brokers; many are completely fraudulent. Recently, the Division has discovered two investment programs being offered over the Internet by companies claiming to be headquartered in Utah. The Utah addresses given on the Internet sites do not exist. One offers three "investment programs" paying from 5 – 12% profit *per day!* Investors can choose the professional plan, the V.I.P. plan, or the "Hot" plan. Investors are also promised 5% commissions for other investors they refer to this investment program. The company claims to be licensed, but the only license it has is a business license issued by Salt Lake City. The other site uses fancy language promising "strategic turnkey solutions that maximize shareholder value." Investors who pay deposits of \$37,500 are promised profits of \$376,938. The investors are required to send money via wire transfer to a bank in Panama, where the money disappears. Just because an investment has an Internet site does not mean it is legitimate. In fact, these solicitations prove that the information posted on Internet sites may be completely false.
10. **Promissory Notes or Guarantees.** Notes and guarantees are commonly offered by investment promoters to create the appearance that investments are solid or backed by

collateral. In reality, a note is just a person's promise to pay and provides no protection if the person giving the note is in a precarious financial condition. Investors should ask themselves: If this company is in such good financial condition, why are they borrowing money from me? What collateral will be put in my name to ensure the note is repaid? More than 40% of the frauds prosecuted by the Division in 2006 involved the sale of promissory notes or guarantees given by the promoters. When promissory notes or guarantees are given to investors in return for an investment of money, the notes are securities and the sellers must comply with the securities laws.

**What Can Investors Do to Protect Themselves?**

Investors need to understand that promises of higher returns means there is high risk. Just because a promoter says an investment has no risk or is guaranteed, does not mean the risk is low. Investors should ask themselves: if there is so much profit to be made with no risk, why are they borrowing money from me and not a bank? The answer generally is that a bank has already refused to lend them money.

**Three questions every investor should ask:**

1. Is the person offering the investment licensed? Find out by calling the Division of Securities at (801) 530-6606.
2. Is the stock offering registered? All securities sold in the state must be registered or exempt. Before you invest your money, call the Division of Securities to make sure it is a legitimate offering.
3. Did the promoter give you a written prospectus summarizing the investment? Did he or she give you a copy of the financial statements showing how the company is doing? Has the promoter disclosed his or her prior business success or any previous criminal convictions or bankruptcies?

**The Seven most common warning signs of investment fraud are:**

1. Promises of high returns. Any claim that you can double your money in six months is a fraud.
2. Claims that the investment is guaranteed or that it has little or no risk.
3. Pressure to invest immediately because there is a deadline or only a few openings left.
4. Encouraging you to borrow money from equity in your home to maximize the profit you can make. Because all investments involve risk, no legitimate securities broker will recommend using home equity to make an investment.
5. Vague descriptions about how your money will be used or what the company does.
6. Claims that other people have already checked out the investment and are investing. These may include well-known members of the community or people within your affinity group (your church, workplace, or service organization).
7. The assertion that this investment involves new technology that can solve a problem that big companies in this industry have been unable to solve (such as drilling for oil in new places, new pharmaceuticals that cure well-known diseases, or high-tech inventions).

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**Securities Fraud Statistics**

The North American Securities Administrators Association (NASAA), representing state securities regulators, reported that there had been significant increases in the number of enforcement actions, money ordered returned to investors, and years of incarceration for securities law violations during the 2004-2005 fiscal year.

NASAA reported a 23% increase in enforcement actions (including administrative, civil, and criminal) to 3,635 during the 2004-2005 reporting period, up from 2,964 during the 2002-2003 reporting period. Money ordered returned to investors (including restitution, rescission, and disgorgement) increased 38% to \$911 million from \$660 million during the earlier period. Years of incarceration as a result of securities law convictions rose 30 percent, to a cumulative 935 years, compared to 718 years in the previous reporting period.

The enforcement statistics represent responses from 42 of the 53 U.S. jurisdictions (counting D.C., Puerto Rico, and the Virgin Islands).

Investors are urged to contact the Division of Securities to make sure anyone offering investments is licensed, by calling (801) 530.6600, toll free at 1.800.721.7233 or logging on to [www.securities.utah.gov](http://www.securities.utah.gov).

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